

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4020

C O N F I D E N T I A L MANILA 6558

E.O. 11652: GDS

TAGS: EGEN, RP, US

SUBJECT: US-PHILIPPINE ECONOMIC NEGOTIATIONS

REF: (A) STATE 111891; (B) STATE 108580

1. EMBASSY ESTIMATES MAGNITUDE U.S. INVESTMENT IN CATEGORIES LISTED REFTEL B WHICH MAY BE AFFECTED BY EXPIRATION LAUREL-LANGLEY AGREEMENT IS AS FOLLOWS:

(A) IF RETAIL TRADE IS DEFINED TO INCLUDE INDUSTRIAL AND BULK SALES (TO FINAL CONSUMER): \$8-10 MILLION

(B) IF RETAIL TRADE DEFINED TO EXCLUDE INDUSTRIAL AND BULK SALES: 1-2 MILLION (SEE A-342 OF DECEMBER 14, 1974 FOR PARTIAL LIST OF COMPANIES)

(C) PUBLIC AND PRIVATE LAND: (ACQUIRED 1946-74):
CURRENT VALUE OF PARITY PERIOD LANDHOLDINGS, INCLUDING RESIDENTIAL PROPERTY, IS ESTIMATED AT \$70 MILLION.
ASSUMING ESTABLISHMENT LANDHOLDING COMPANIES, AND EFFECTIVE TRANSFER OF 60 PERCENT EQUITY IN THOSE COMPANIES TO FILIPINOS, ADJUSTMENT IN EQUITY STRUCTURE, WHETHER OR NOT REPRESENTING ACTUAL DISINVESTMENT, WOULD BE AROUND \$42 MILLION.

(D) FURTHER EQUITY RESTRUCTURING IN AREAS OF NATURAL RESOURCES EXPLOITATION AND OPERATION OF PUBLIC UTILITIES
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(LATTER TO INCLUDE TELECOMMUNICATIONS COMPANIES): \$20 MIL-

LION. THE MAJOR MINING COMPANIES HAVE MADE OR ARE IN THE PROCESS OF MAKING THE TRANSITION TO 60 PERCENT PHILIPPINE OWNERSHIP AND THE TELECOMMUNICATIONS COMPANIES ARE MOVING IN THIS DIRECTION. THE FIGURE OF \$20 MILLION IN PART DUPLICATES ESTIMATES PROVIDED FOR THE VALUE OF LANDHOLDINGS, AS IT INCLUDES THE VALUE OF LAND FOR COMPANIES ENGAGED IN AGRICULTURE AND FORESTRY.

2. BASED ON ABOVE AND ASSUMING THAT ANY LEGALLY REQUIRED CHANGES IN PARTNERSHIP OR EQUITY STRUCTURE WOULD BE RESTRICTED TO LANDHOLDINGS, RETAIL TRADE ACTIVITIES, THOSE FEW COMPANIES ENGAGED IN OPERATION PUBLIC UTILITIES AND THOSE EXPLOITATION NATURAL RESOURCES THAT HAVE YET TO GO 60 PERCENT FILIPINO, TOTAL POTENTIAL DISINVESTMENT WOULD BE IN RANGE OF \$70 MILLION. IT SHOULD BE NOTED THAT SUCH DISINVESTMENT AS MAY RESULT IS LIKELY TO BE LEGAL RATHER THAN ECONOMIC. FOR EXAMPLE, BENGUET CONSOLIDATED IS MEETING THE LEGAL REQUIREMENT TO GO 60/40 BY EXPANDING THE FIRMS VIA ADDITION OF PHILIPPINE PARTNERS. IN MANY CASES, DIVESTMENT WILL NOT INVOLVE SUBSTANTIAL CASH PAYMENTS TO DIVESTING U.S. OWNERS. IN NUMBER CASES, SUCH PAYMENTS WILL THEMSELVES BE REINVESTED IN OTHER PHILIPPINE ACTIVITIES OR PUT TO USES ALLIED WITH THE PURPOSES OF THE FIRMS INVOLVED.

3. WE REGRET THAT THE ARITHMETIC CANNOT BE MORE PRECISE, BUT ANY NET CALCULATION OF DIVESTMENT IS NOT POSSIBLE. PART OF REASON IS THAT MOST VENTURES INVOLVED REMAIN VERY PROFITABLE AND FEW PRESENT OWNERS ARE EAGER TO REDUCE ABSOLUTE VALUE OF; HOLDINGS. FURTHER FACTOR IS, OF COURSE, THAT DIVESTMENT AS SUCH ONLY ONE OF SEVERAL ADJUSTMENT PATHS OPEN TO FIRMS AND INDIVIDUALS. WE WOULD NOT SUGGEST BY THIS THAT THERE WILL BE NO ACTUAL DIVESTMENT OR THAT NO STICKY SITUATIONS CAN ARISE.

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